

Message Text

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ORIGIN FRB-03

INFO OCT-01 EA-10 ISO-00 TRSE-00 EB-08 SS-15 /037 R

DRAFTED BY FRB:BERNARD:JA
APPROVED BY EA/J:NICHOLAS PLATT
-----113685 130323Z /65
O 130255Z APR 78
FM SECSTATE WASHDC
TO AMEMBASSY TOKYO IMMEDIATE

C O N F I D E N T I A L STATE 094681

TO MCCAMEY FROM FEDERAL RESERVE BERNARD

E.O. 11652:GDS

TAGS: OVIP(BURNS)

SUBJECT: BURNS TRAVEL TO TOKYO

1. REACTIONS TO PRESIDENT CARTER'S ANTI-INFLATIONARY PROPOSALS APPEAR TO HAVE BEEN MIXED. A NUMBER OF LEADING BUSINESSMEN PRAISED THE PROGRAM AND THERE SEEMS TO HAVE BEEN RELIEF IN THE BUSINESS COMMUNITY THAT NO WAGE AND PRICE CONTROLS WERE INCLUDED AMONG THE PROPOSALS. ON THE OTHER HAND, SEVERAL LEADING ECONOMISTS HAVE COMMENTED IN A NEGATIVE VEIN, STRESSING IN PARTICULAR THAT THE PROGRAM CONTAINS NOTHING NEW. POLITICAL REACTION SEFMED DIVIDED MAINLY ALONG PARTY LINES. THERE WAS LITTLE APPARENT REACTION TO THE PROPOSALS IN DOMESTIC FINANCIAL MARKETS. DEBT MARKETS WERE STEADY TO SLIGHTLY BETTER. IN THE STOCK MARKET THE DOW JONES INDUSTRIALS WERE DOWN ABOUT FOUR POINTS.

2. FOREIGN EXCHANGE MARKETS WERE RELATIVELY QUIET TODAY EXCEPT FOR THE CANADIAN DOLLAR WHICH DECLINED TO A NEW LOW OF 87.07 FOLLOWING NEWS OF A LARGE INCREASE IN CANADIAN
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CONSUMER PRICES. THE TRADE-WEIGHTED VALUE OF THE U.S. DOLLAR ROSE 2 TENTHS TODAY: PARTICIPANTS IN FOREIGN EXCHANGE MARKETS INITIALLY REACTED A BIT NEGATIVELY TO THE PRESIDENT'S PROPOSALS FOR CONTROLLING INFLATION, BUT SENTIMENT CHANGED LATER IN LIGHT OF INDICATIONS OF A MORE FAVORABLE REACTION IN THE U.S. BUSINESS COMMUNITY. APPARENTLY, MANY BUSINESSMEN WERE RELIEVED THAT NO WAGE-PRICE CONTROLS WERE INCLUDED

AMONG THE PROPOSALS. GOLD ROSE SLIGHTLY TO \$180 TODAY.

3. BRITISH CHANCELLOR HEALEY PRESENTED HIS BUDGET ON TUESDAY FOR THE FISCAL YEAR THAT STARTED THIS MONTH. THE BUDGET HAS BEEN DESCRIBED AS MILDLY STIMULATIVE. MR. HEALEY SAID THAT THE BRITISH ECONOMY WOULD HAVE GROWN BETWEEN 2 AND 2-1/2 PER CENT THIS YEAR. THE BUDGET MEASURES SHOULD INCREASE THE GROWTH RATE TO AROUND 3 PER CENT IN THE NEXT TWELVE MONTHS, THE HIGHEST RATE IN FIVE YEARS. VIRTUALLY THE ENTIRE STIMULUS OF THE BUDGET IS PROVIDED THROUGH TAX CUTS FOR INDIVIDUALS. FOR INDIVIDUAL TAXPAYERS, THE BUDGET PROPOSED A CUT OF \$4.5 BILLION. IN THE AREA OF MONETARY POLICY, MR. HEALEY NOTED THAT IN THE FISCAL YEAR JUST ENDED, THE STERLING-DENOMINATED M3 HAS EXPANDED BY JUST UNDER 14 PER CENT, A RATE SLIGHTLY ABOVE THE TARGET RANGE OF 9 TO 13 PER CENT. FOR THE PRESENT FISCAL YEAR, THE GROWTH RATE TARGET WILL BE SET BETWEEN 8 AND 12 PER CENT; THIS TARGET RANGE WOULD NOT, HOWEVER, BE SET FOR THE FULL YEAR, BUT WILL BE A "ROLLING" ONE, WITH TARGETS ROLLED FORWARD EVERY SIX MONTHS. MR. HEALEY SAID THAT STERLING SHORT-TERM INTEREST RATES ARE NOW LOW COMPARED WITH THE U.S. AND EUROS DOLLAR RATES AND HE HAS, THEREFORE, ACQUIESCED TO AN INCREASE IN THE BANK OF ENGLAND'S MINIMUM LENDING RATE FROM 6-1/2 TO 7-1/2 PER CENT, EFFECTIVE WEDNESDAY. PUBLIC SECTOR BORROWING REQUIREMENT WILL BE ABOUT \$16 BILLION FOR THIS YEAR THE CHANCELLOR ESTIMATED. HE PRE-CONFIDENTIAL

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DICTED THAT THE U.K. INFLATION RATE WILL LIKELY DROP TO A 7 PER CENT ANNUAL RATE BY SPRING OR EARLY SUMMER. IN THE FIRST QUARTER PRICES ADVANCED AT A RATE OF ABOUT 9.5 PER CENT, DOWN FROM 13.5 PER CENT IN THE FOURTH QUARTER.

4. DURING HIS BUDGET PRESENTATION, MR. HEALEY SAID, THAT HE IS ARRANGING TO PREPAY A SECOND \$1 BILLION TO THE IMF THIS YEAR. SINCE OCTOBER, HE SAID, BRITAIN HAS ALSO ARRANGED TO PREPAY \$1 BILLION IN PRIVATE MARKET DEBTS. IN ADDITION, ANOTHER \$1 BILLION IN DEBTS WILL BE PAID THIS YEAR AS THEY FALL DUE. CHRISTOPHER

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 jan 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: n/a
Control Number: n/a
Copy: SINGLE
Draft Date: 13 apr 1978
Decaption Date: 01 jan 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 20 Mar 2014
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1978STATE094681
Document Source: CORE
Document Unique ID: 00
Drafter: BERNARD:JA
Enclosure: n/a
Executive Order: GS
Errors: N/A
Expiration:
Film Number: D780158-0348
Format: TEL
From: STATE
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1978/newtext/t19780461/aaaabzkw.tel
Line Count: 105
Litigation Code IDs:
Litigation Codes:
Litigation History:
Locator: TEXT ON-LINE, ON MICROFILM
Message ID: f8eb39b1-c288-dd11-92da-001cc4696bcc
Office: ORIGIN FRB
Original Classification: CONFIDENTIAL
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 2
Previous Channel Indicators: n/a
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: n/a
Reference: n/a
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 10 may 2005
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 2981110
Secure: OPEN
Status: NATIVE
Subject: BURNS TRAVEL TO TOKYO
TAGS: OVIP, JA, (BURNS, ARTHUR)
To: TOKYO
Type: TE
vdkgvwkey: odb://SAS/SAS.dbo.SAS_Docs/f8eb39b1-c288-dd11-92da-001cc4696bcc
Review Markings:
Sheryl P. Walter
Declassified/Released
US Department of State
EO Systematic Review
20 Mar 2014
Markings: Sheryl P. Walter Declassified/Released US Department of State EO Systematic Review 20 Mar 2014